



MASSACHUSETTS PORT AUTHORITY
ADMINISTRATION & FINANCE
ONE HARBORSIDE DRIVE
SUITE 200S
EAST BOSTON, MA 02128-2909

MASSPORT'S FINANCIAL RECOVERY PLAN

MARCH 7, 2002

The purpose of this communication is to serve as a progress report to Massport's bondholders, to the investment community and to other stakeholders on the Authority's progress in implementing the Financial Recovery Plan that Massport's Board voted in response to the financial situation brought about by the recession and the events of September 11th.

In October 2001, Massport's Board revised the Authority's revenue and operating budgets as part of the Financial Recovery Plan. That plan was based upon the assumption that, on average, FY2002's passengers at Logan would be 70% of the originally expected FY2002 levels, and that parking revenue would be 65% of the prior year. The resulting FY2002 revenue projection was \$305.3 million (down from \$370.5 million). The revised operating budget for FY2002 was \$203.3 million (down from \$226.6 million).

What has Massport accomplished in its efforts to implement this plan?

- The revised expense targets have been met as contract services such as building cleaning and bus frequencies were reduced, seaport flex time was eliminated, and the combination of lower oil prices and a mild winter reduced utility expenses.
- 28 employees accepted the early retirement program and agreed to retire during FY2002.
- 149 employees were laid off in October and November 2001.
- Logan parking rates were increased on November 12, 2001 from \$18 to \$22 per day; exits have increased since then.
- Terminal B parking garage was reopened for passenger parking on January 15, 2002. Since then Logan's parking facilities have averaged an additional 1,070 parkers per day.
- Bridge tolls were raised from \$1 to \$2 on January 1, 2002.

What trends has Massport observed?

- While passengers were down from the last year's experience, the trend has been positive. The monthly decline in passengers from 2000 to 2001 was 43% in September, 35% in October, 32% in November, 23% in December and 26% in January.

- Passenger parking revenue was projected to be 35% below original expectations for FY2002. On a monthly basis, parking revenues were below last year by 51% in September, 45% in October, 29% in November and 17% in December and only 6% in the last two weeks of January after the Terminal B garage reopened.

The next step in the Fiscal Recovery Plan was to reexamine the Authority's capital program. After a careful review of all projects, staff recommended a 37% reduction in the program for FY2002 & FY2003, from \$749 million to \$469.5 million. No on-going construction contracts were interrupted. The major PFC-funded work on the International Gateway, the roadway system and the walkways from the garage to Terminals B and C has continued unabated. The Board also allocated funds to construct Massport's portions of the renovation of Terminal A that is being built by Delta Air Lines; Massport is pleased that Delta has remained committed to this project.

On a cash basis, the Financial Recovery Program is working. With the sole exception of October, cash collections for each month have been sufficient to cover all debt service deposits, make the revised deposits to the Maintenance Reserve Fund, the Payment in Lieu of Tax Fund and to make a positive contribution to the Improvement & Extension Fund. As of January 30th, the balance in the I&E fund was \$140.1 million and the balance of the PFC Capital Fund was \$36.5 million. Cash collections (excluding PFC's) for July – February FY2002 are only 5% below the cash collected during the same period of FY2001.

On November 19, 2001, President Bush signed into law the Aviation and Transportation Security Act. In addition to federalizing airport security, a position advocated by Massport, the law also limits the liability of airport operators for the events of September 11th to the extent of their liability insurance coverage, giving airports, such as Logan, the same protection previously extended to the air carriers.

On December 4, 2001 the Special Advisory Task Force on Massport filed its report with Governor Jane Swift. The majority of the findings related to airport security. Since the fall, Massport has utilized the services of various security experts, including a former Security Director of Ben-Gurion Airport, to aid Logan in improving security through various measures, including the implementation of video surveillance, roving road blocks, and wireless access for the state police to federal and state criminal data bases. A search firm has been hired to recommend a new security director and a new executive director for Massport. Logan's carriers introduced 100% baggage screening, including positive bag match, on January 29th without increasing passenger or flight delays.

In February 2002, Moody's confirmed both the Aa3 rating on Massport's GARB debt and the underlying A2 rating on Massport's PFC bonds, both with a negative outlook. Fitch has placed Massport's AA GARBS on rating watch negative. On March 1, 2002, as part of its on-going review of airport ratings, Standard and Poor's reduced Massport's GARBS to A+ and Massport's PFC underlying rating to A-, both with a stable outlook.

Massport has established an Investor Relations Section on its web page. This section can be accessed from www.massport.com by clicking on "About Massport", and contains pdf files of the Annual Statement of Financial Information and Statistical Data for FY2001 and the Comprehensive Annual Financial Report (CAFR) for FY2001. Questions or requests for additional information should be directed to Leslie A. Kirwan, Director of Administration & Finance at 617-568-1035 or lkirwan@massport.com or to Betsy Taylor, Director of Finance at 617-568-1047 or btaylor@massport.com.